

# *State Expenditures Perspectives*



## **PART ONE – AN OVERVIEW OF STATE EXPENDITURES**

---

This chapter provides a high level categorization of total proposed spending in the 2011 biennium. The total budget is comprised of four appropriation categories: 1) the general operations of state government (predominantly requested in the general appropriations act (HB 2); 2) capital projects; 3) statutory appropriations and transfers; and 4) miscellaneous appropriations. This chapter includes the following:

- The big picture – proposed spending by fund source/function
- A further examination by appropriation category
  - Proposed budget for the general operations of state government (HB2)
  - Long Rang Planning projects
  - Statutory appropriations and transfers
  - Miscellaneous expenditures (cat and dog bills)
- A historical perspective on general fund spending

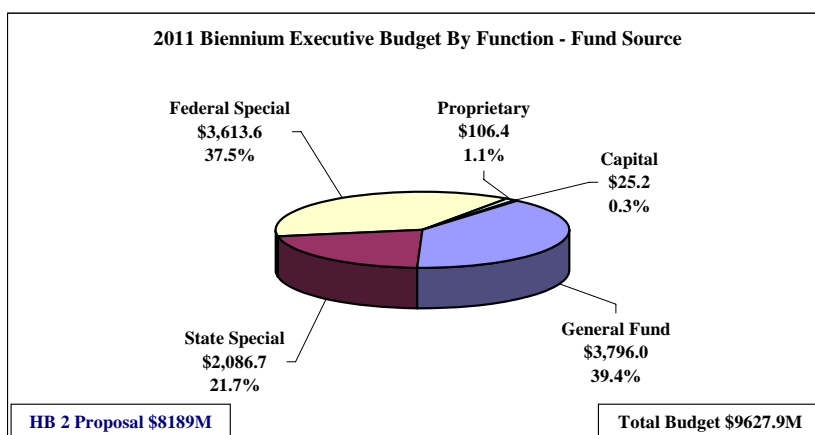
The following chapter, Part Two of state expenditure perspectives, will discuss the specifics of major expenditure proposals in the executive budget.

## **THE BIG PICTURE – PROPOSED SPENDING ALLOCATION BY FUND SOURCE/FUNCTION**

### **EXECUTIVE PROPOSED SPENDING BY FUNDING SOURCE**

Figure 1 shows the executive proposal allocated by funding source. As shown, general fund comprises the largest share. Because general fund grows at a higher rate than federal funds in the proposed budget, its share of the total has grown slightly from the 2009 biennium.

Figure 1



## EXECUTIVE PROPOSED SPENDING BY FUNCTION

Figures 2 and 3 show the executive budget by function for the general operations of state government and by appropriation type for the remaining budget items.. Figure 2 shows the total executive budget from all fund sources. As shown in Figure 2, K-12 (public) education, human services, and “other agencies” (primarily due to transportation and various environmental and wildlife expenditures), consume the largest share of the total funds budget at 75.9 percent.

Figure 2

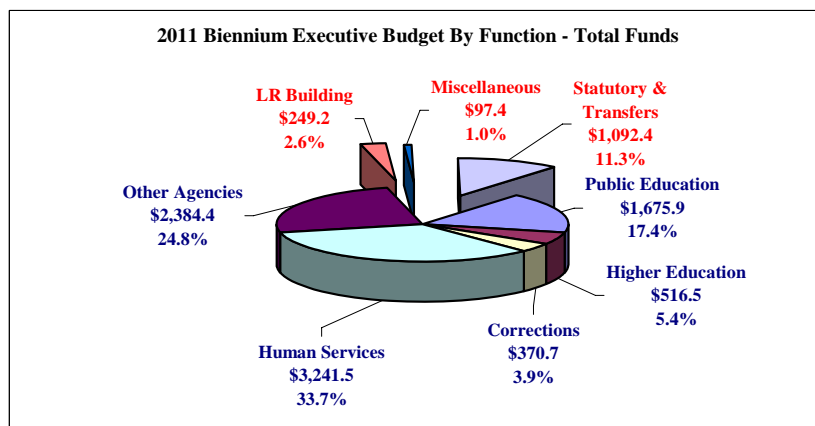
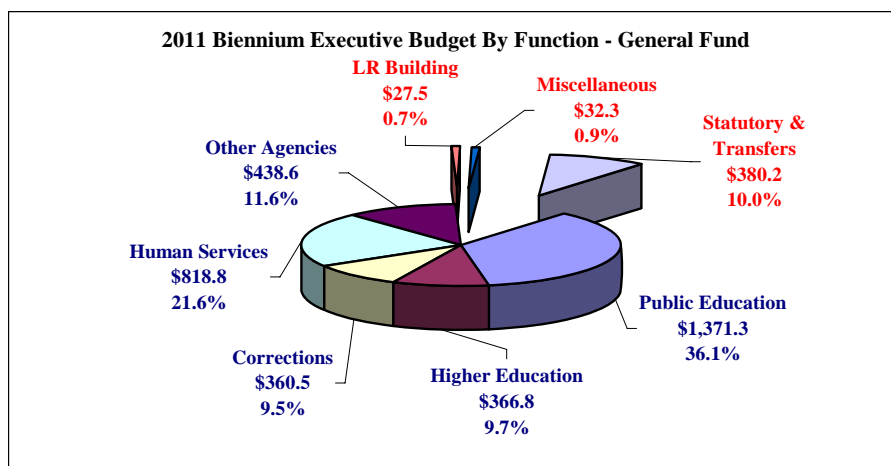


Figure 3 shows the general fund budget proposed by the executive. As shown, the largest expenditures are made for K-12 and higher education, human services, “other agencies”, statutory appropriations and transfers, which comprise almost 79.3 percent of the budget.

Figure 3



## A FURTHER EXAMINATION - THE EXECUTIVE BUDGET PROPOSAL BY APPROPRIATION CATEGORY

This section provides further detail on the executive budget proposal, broken down by each of the functional and appropriation source categories shown in Figures 2 and 3. Over 88 percent of the total executive budget is contained in HB 2, the general appropriations act, which includes the general operating budget of state agencies. These proposals are summarized by programmatic function shown in Figures 2 and 3 (public and higher education, corrections, human services, and other, beginning on page 46. Long-range planning is summarized on page 53 and in Section F of Volume 7. Statutory appropriations are discussed further beginning on page 55. “Miscellaneous Expenditures”, which includes the pay plan bill and all bills other than HB 2, are listed beginning on page 67.

## PROPOSED BUDGET IN HB 2 – GENERAL OPERATIONS OF STATE GOVERNMENT

HB 2 contains over 88 percent of the total budget proposals in the executive budget. Figure 4 shows the allocation of total or all funds for ongoing expenditures in HB 2, by function, with education and human accounting for about two-thirds of the total.

Figure 4

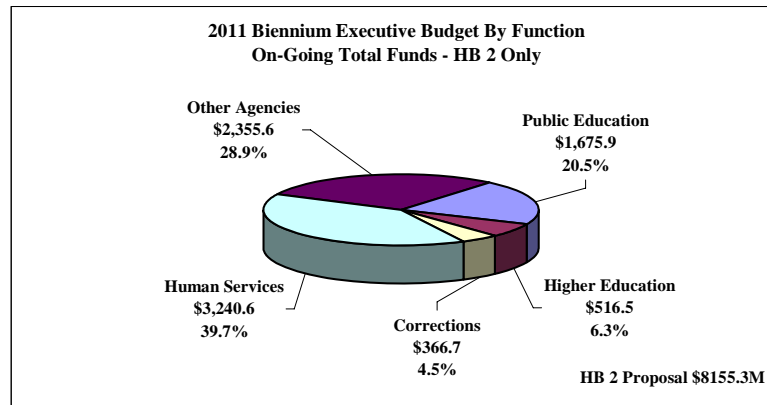
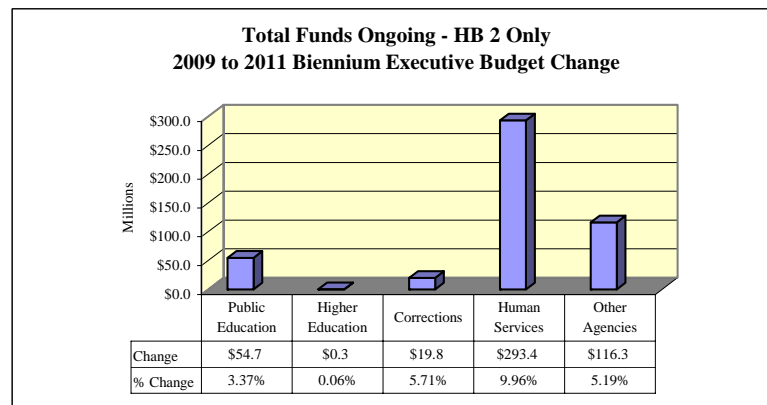


Figure 5 shows the increase from the 2009 to the 2011 biennium proposed executive budget for ongoing expenditures of all funds, by function. As shown, increases are dominated by human services and “other agencies”, which is comprised of all state government except education, human services, and corrections. Major increases in those agencies include transportation funding, environmental remediation, and other federal grants, including homeland security grants.

Figure 5



## Present Law vs. New Proposals

Figure 6 shows the allocation between present law increases and new proposals for all funds in HB 2. Please note that, for purposes of clarity and scale, one-time-only proposals are included, explaining a difference between this figure and Figure 4.

As shown, over 87 percent of proposed expenditures are for the base, with the greatest majority of increases for present law adjustments.

Figure 6

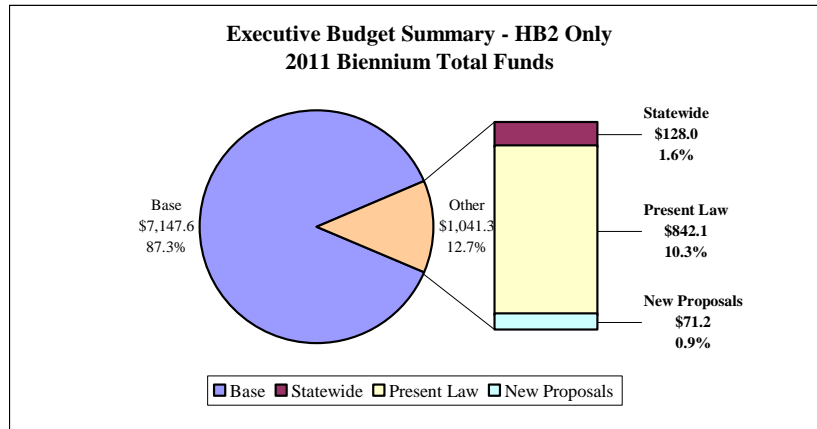
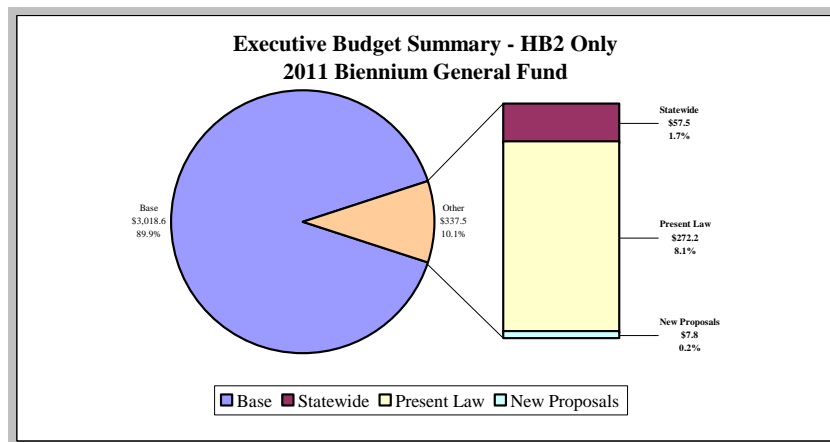


Figure 7



This is even more striking with general fund, where base expenditures are almost 90 percent of the total executive budget. Because the executive makes certain reductions to present law in negative new proposals, present law is overstated and new proposals are understated. General fund for ongoing new proposals is actually a negative \$3.9 million.

Significant present law increases include:

- A 3 percent per year increase in Base aid schedules and maintenance requirements for special education for K-12
- Medicaid caseload and utilization increases
- Implementation of the Healthy Montana Kids initiative (I-155)
- Corrections population increases and annualization of programs begun in the 2009 biennium
- Statewide present law adjustments

- Environmental remediation

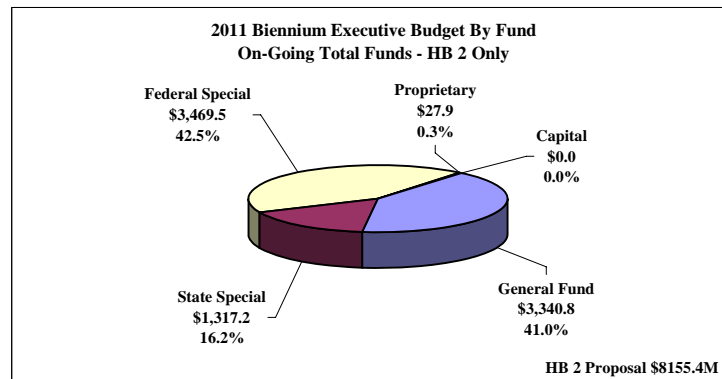
Among the limited new proposals are the following. As stated above, please note that new proposals are reduced by an increase in the proposed agency vacancy savings level from 4 percent included in present law to 7 percent, which is a negative adjustment.

- Maintenance of most economic development programs begun in the 2009 biennium as one-time-only appropriations
- An increase in vacancy savings (negative adjustment)
- A 3 percent increase in special education
- Environmental remediation

### Type of Funding

Ongoing expenditure proposals are also shown by type of funding. The largest source of funding for state government is federal funds, although the largest growth occurs in general fund, which increases by \$190.4 million or 6.0 percent for ongoing funding from the 2009 biennium.

Figure 8

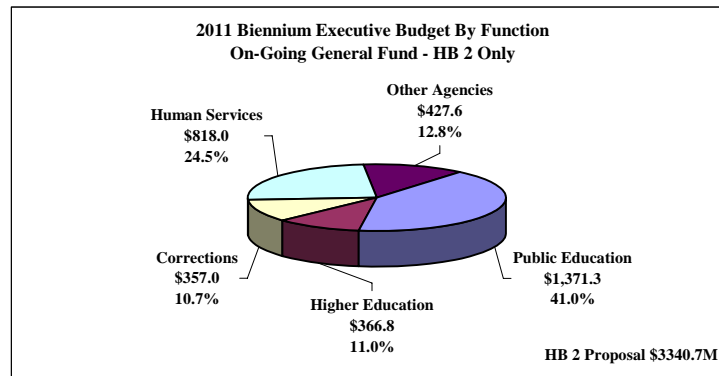


### Executive Proposed General Fund Spending

#### *Background*

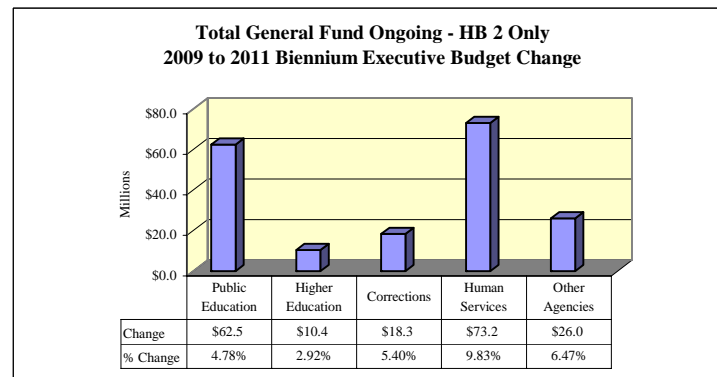
General fund comprises 41.0 percent of total proposed ongoing HB 2 funding (\$3,340.8 million), and is used for a wide variety of programs, although education, human services, and corrections dominate expenditures, as shown in the following figure.

Figure 9

***Proposed Spending***

General fund would increase by \$190.4 million, or 6.0 percent from the 2009 to the 2011 biennium for ongoing expenditures.

Figure 10



Significant increases and other policy proposals of the executive include:

- A 3.0 percent increase in BASE aid schedules and special education for K-12
- Medicaid caseload and utilization increases partially offset by a lower than anticipated growth rate in FY 2009, and replacement of federal funds due to a reduction in the Medicaid match rate paid by the federal government
- Correctional population increases of around 4.6 percent per year over the FY 2008 level, partially offset by a lower than anticipated population growth in FY 2009
- Statewide present law adjustments for fully funding personal services (offset by a vacancy savings rate), fixed costs, and inflation. This adjustment is the most and in many instances the only significant general fund adjustment for almost half of the agencies that receive general fund

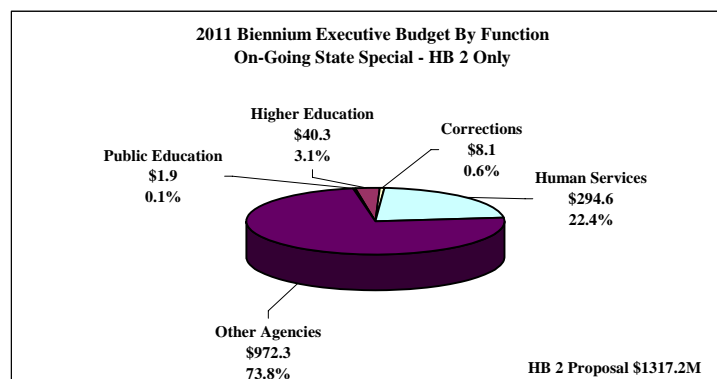
For additional detail, see page B-12 in appendix B.

## Executive Proposed State Special Revenue Spending

### *Background*

State special revenue is earmarked for specific purposes and comprises 16.2 percent of the total executive proposed budget for ongoing expenditures in the 2011 biennium. The following shows funds by function. “Other agencies” include transportation, environmental, and wildlife functions, each of which is significantly funded with state special revenue.

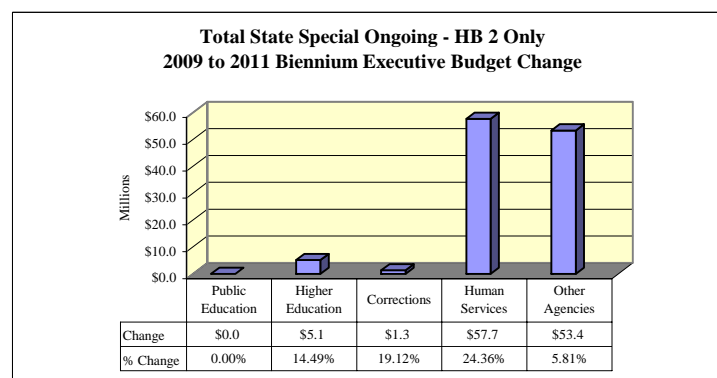
Figure 11



### *Proposed Spending*

State special revenue funds would increase by \$117.5 million, or 9.8 percent for ongoing expenditures from the 2009 to the 2011 biennium.

Figure 12



Significant increases and other policy proposals of the executive include:

- Implementation of the Healthy Montana Kids initiative (I-155)
- Superfund and other environmental remediation/permitting activities
- General operational increases for various wildlife and environmental programs
- For additional detail, see page B-14 in appendix B.

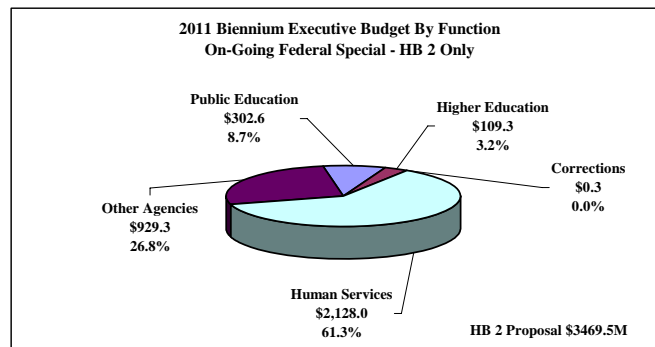


## Executive Proposed Federal Funds Spending

### Background

Federal funds are, as the name implies, received from various federal funding sources. The federal government provides targeted funding that cannot be used except for the general and/or specific purposes intended. The proposed executive budget has a total of \$3,469.5 million in the 2011 biennium, or 42.5 percent of the ongoing HB 2 total. Two agencies, Health and Human Services (DPHHS) and Transportation, account for almost 80 percent of the total funding.

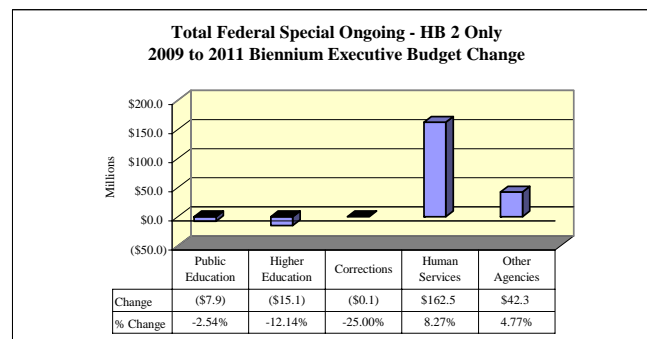
Figure 13



### Proposed Spending

Federal funds for ongoing expenditures would increase by \$181.8 million, or 5.5 percent from between the 2009 and the 2011 biennium. DPHHS would receive almost 90 percent of this increase, primarily for maintenance of current programs.

Figure 14



Significant increases and other policy proposals of the executive include:

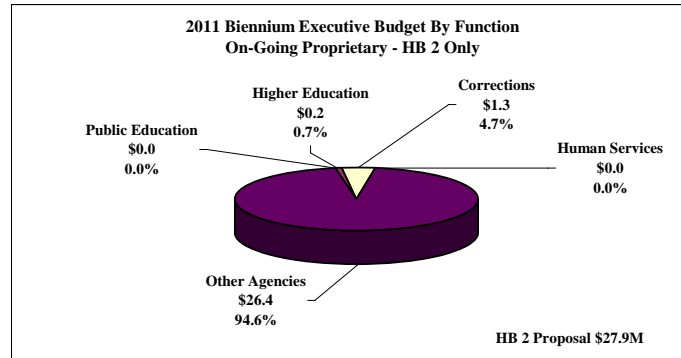
- Medicaid caseload and utilization increases partially offset by a lower than anticipated growth rate in FY 2009
- Increased federal transportation funding
- Homeland security grants that had been added via budget amendment in previous interims

For additional detail, see page B-16 in appendix B.

### Executive Proposed Proprietary Funds Spending

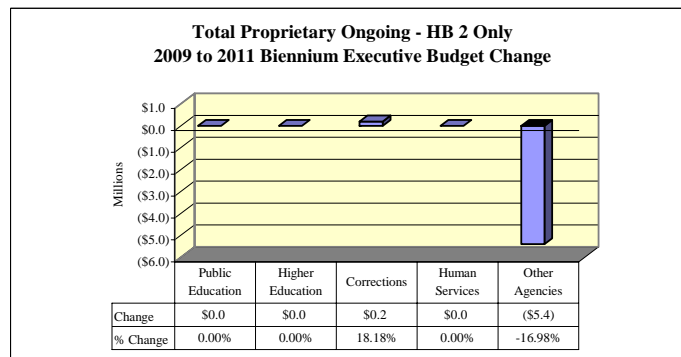
Most expenditures of proprietary funds are made in the Department of Administration, Revenue, and Justice.

Figure 15



Proprietary funds would be reduced by \$5.2 million, or 15.6 percent from the 2009 to the 2011 biennium, primarily because certain functions that had been funded with proprietary funds in the Department Labor and Industry are proposed for appropriation in HB 2.

Figure 16



Please note that these totals are only the portion of proprietary funds appropriated in HB 2, which is only a small fraction of the total. The remaining proprietary funds do not require an appropriation in HB 2. Rather, the legislature establishes the maximum rates the proprietary-funded programs may charge those who utilize the services. If only non-budgeted proprietary funds are included, the increase would total \$161.5 million or 11.8 percent. Major increases (with the exception of the State Fund, which is a quasi-independent entity that would increase by \$39.3 million) proposed by the executive include various functions, particularly information technology, in the Department of Administration and increases for unemployment insurance.

Volumes 3 through 7 of the LFD 2011 Biennium Budget Analysis contain discussion of all non-budgeted proprietary funds in the relevant agencies.

## EXECUTIVE PROPOSED LONG-RANGE PLANNING SPENDING

### Background

The Long-Range Planning (LRP) subcommittee analyzes and makes appropriations and grant authorizations for the executive proposal of capital projects. The capital project budgets include investment in various forms of infrastructure including: the acquisition of lands, construction and major maintenance of lands and buildings, maintenance and development of water related infrastructure, reclamation activities, and information technology.

### Governor's Proposal

The executive budget proposes total funds spending of \$284.3 million for the LRP budgets. In the 2011 biennium, the legislature will be appropriating funds for nine programs. The LRP programs include:

- Long-Range Building Program – acquisition, construction, and major maintenance of state owned lands and buildings
- State Building Energy Conservation Program – energy efficiency improvements to state owned buildings
- Long-Range Information Technology Program – major information technology build out and upgrade
- Treasure State Endowment Program – water infrastructure grants to local governments
- Treasure State Endowment Regional Water Program – matching funds for major regional water projects
- Renewable Resource Grant and Loan Program – water conservation grants and loans to local governments
- Reclamation and Development Grant Program – grants for the reclamation of lands degraded by severance activities
- Cultural and Aesthetic Grant Program – arts and historical grants
- Quality School Facility Program – a newly proposed grant program authorizing grants for major maintenance of K-12 school facilities

Figure 17 provides a summary of the proposed appropriations for the LRP programs included in the executive budget. The appropriations shown have been adjusted to agree with the executive budget revisions of December 15, 2008.

Figure 17

<b>Long-Range Planning Budgets 2011 Biennium</b>						
<i>(Dollars in Millions)</i>						
<b>Program</b>	<b>General Fund<sup>1</sup></b>	<b>State Special<sup>2</sup></b>	<b>Appropriations</b>		<b>Authority Only</b>	<b>Total</b>
			<b>Federal Special</b>	<b>Capital Project</b>		
Long-Range Building Program	\$5.2	\$50.7	\$9.4	\$17.4	\$15.1	\$97.8
FWP-Access Montana	2.0					2.0
State Building Energy Conservation Program	13.4					13.4
Consolidated IT Long-Range Building Program	12.9	21.4	66.0			100.3
Treasure State Endowment Program - Grants		17.1				17.1
Treasure State Endowment Regional Water Projects <sup>3</sup>		8.0				8.0
Renewable Resource Grants		8.5				8.5
Renewable Resource Loans <sup>4</sup>		9.6				9.6
Reclamation & Development Grants		5.8				5.8
Cultural & Aesthetic Grant Program		0.8				0.8
Quality School Facility Program <sup>5</sup>		21.0				21.0
<b>Total Long-Range Planning Recommendations</b>	<b>\$33.5</b>	<b>\$142.9</b>	<b>\$75.4</b>	<b>\$17.4</b>	<b>\$15.1</b>	<b>\$284.3</b>

<sup>1</sup> Includes \$6 million of general fund appropriations in the LRITP and \$27.5 million of general fund OTO transfers then appropriated from capital project funds

<sup>2</sup> Includes appropriation of bond proceeds: \$15 million in Long-Range IT, \$9.3 million in Renewable Resource Loans, \$21 million Quality School Facility

<sup>3</sup> Appropriation omitted from the initial executive budget recommendation

<sup>4</sup> Initial executive recommendation only included bond authority of \$2.9 million

<sup>5</sup> New program proposal - appropriation related to land acquisition

## Issues for Legislative Consideration

### *The Governor's 20 x 10 Initiative*

The executive proposal recommends spending of approximately \$26.5 million in the Long-Range Building Program (LRBP) and the State Building Energy Conservation Program (SBECP) for energy efficiency projects in the 2011 biennium budget. The LRBP and SBECP appropriations are the most significant component of the Governor's 20 x 10 Initiative. The "20 x 10 Initiative" calls on executive branch agencies to increase energy efficiencies by 20 percent by 2010. The Governor's initiative would measure the gains in energy efficiencies in reductions in British Thermal Units (BTU's) consumed. However, a 20 percent reduction in BTU's does not necessarily equate to a 20 percent reduction in costs.

In FY 2008, total energy costs for state, as recorded in the state accounting system (including electricity, natural gas, fuel oil, propane, and coal), were \$39.2 million. State energy costs increased by 39.2 percent over the total energy costs of FY 2007. Energy inflation and the addition of new state space make the calculation of energy savings based on expenditures complex. SBECP projects, as recommended in the executive budget with savings measured at \$1.2 million annually, will only reduce the state government consumption of energy by 4.3 percent (calculated against the FY 2008 energy costs), far from the 20 percent goal of the initiative. While "efficiencies" are expected to be gained from sources other than capital improvements, such as changes in employee behaviors and agency modifications (temperature and lighting changes), the capital improvements component is expected to have the greatest effect, and a dollar savings of 4.3 percent appears inadequate. No information was provided to the legislature on the reduction of BTU's resulting from the projects.

Because of the magnitude of the spending on the 20 x 10 Initiative, the legislature may wish to develop a reporting method to ensure that the energy projects recommended in the executive budget are providing the savings in both BTU's and costs which are expected. Without tracking the savings of the program, the legislature will not know if the \$56.5 million investment has created energy efficiencies or that the initiative has accomplished the goal of becoming 20 percent more energy efficient by 2010.

***Quality School Facilities Program***

The executive budget includes a proposal for a new program, the Quality School Facilities Grants Program (QSFP), which is intended to help the K-12 school districts to address facility deficiencies and improve technological access. Upgrades at K-12 facilities will be in part based on the recommendations provided in the K-12 facility condition and needs assessment and energy audit, a study required in HB 1 of the December 2005 Legislative Special Session.

The executive budget did not include a plan for QSFP grant issuance in the 2011 biennium. Consequently, the legislature has no information to determine how much of K-12 facility needs would be addressed with the available and proposed funding in the 2011 biennium. However, the executive budget did include a proposal for the purchase of income-generating real property for the QSFP, although it did not contain any information related to the purchase of land for the purpose of providing funds for the QSFP. Without this information, there is no way to determine what the future revenue stream of the acquisitions might be.

## STATUTORY APPROPRIATIONS

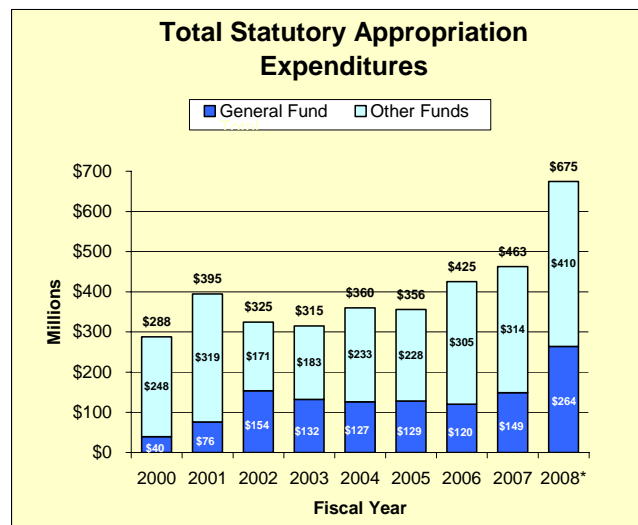
### General Fund

Statutory appropriations are a special kind of legislative appropriation. Unlike temporary appropriations that expire in two years (such as those in the general appropriations act), statutory appropriations are, as their name suggests, in statute and are not part of the biennial budgeting process. As such, they are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. The legislature has made various attempts to not lose sight of these appropriations. In 1985, Representative Bardanoue sponsored legislation that required all valid statutory appropriations to be contained in a list in 17-7-502, MCA. That list provides statutory citations for each statutory appropriation. Although there are currently 94 sections listed containing 99 separate statutory appropriations. Each appropriation listed in statute could have multiple appropriations established on the state accounting system. Of the 99, 28 statutorily appropriate general fund. In 1993, Senator Grosfield successfully sponsored legislation (SB 378) that required a review of all statutory appropriations every two years by the Legislative Finance Committee (this requirement was removed by the 2001 legislature). After coming off of some tough budget sessions (\$156.1 million of general fund budget balancers were enacted in the three special sessions in 1992 and 1993), Senator Grosfield and other legislators were frustrated with

the difficulty in reducing statutory appropriations. They were also concerned with the unfairness this caused when HB2 appropriations had to absorb a larger portion of the reductions.

Statutory appropriations are intended for only limited situations, and guidelines for the appropriateness for establishing them are specified in 17-1-508, MCA. In FY 2008, a total of \$675.0 million was spent with statutory appropriations (Figure 18). The general fund expenditures were \$264.3 million. Total expenditures since FY 2000 were \$3.6 billion, of which \$1.2 billion was general fund. There are approximately 131 FTE funded with statutory appropriations with 56 FTE in the Department of Justice and 53 FTE in the Department of Commerce.

Figure 18

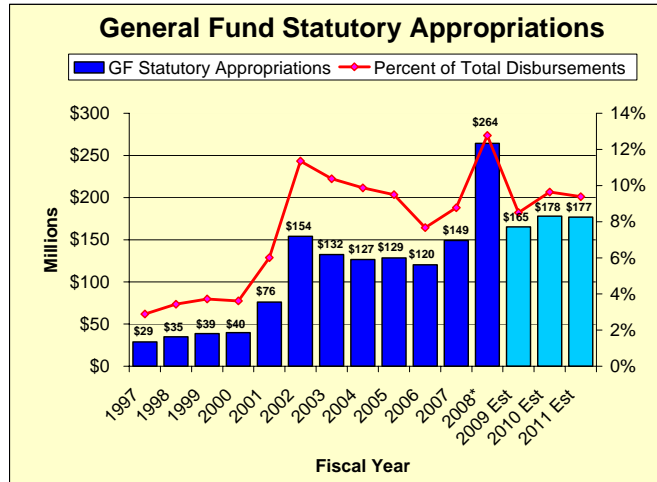


\*Includes \$1.6 M spent by MUS for optional retirement (HB 95) without a statutory appropriation

The significance of statutory appropriations lies not in the number of them, but rather in the amount of money authorized to be spent and whether the authorizations still reflect the priorities of the current legislature. All statutory appropriations are available for the legislature to review, prioritize, and change if desired. Figure 19 illustrates the amount of general fund spent through statutory appropriations from FY 1997 through FY 2008 and estimated amounts for FY 2009 to FY 2011. From FY 1997 to FY 2008, general fund expenditures from statutory appropriations increased \$235.5 million and, in FY 2008, comprised 12.8 percent of all general fund expenditures. FY 2008 was an unusual year in that \$94.6 million was spent to provide one-time tax rebates (HB 9 in the 2007 May special session). For the 2011 biennium, \$354.9 million general fund is expected to be spent with statutory appropriations, a decrease of \$73.0 million over the estimated \$427.9 million to be spent in the 2009 biennium. The initiation of the local government entitlement program in FY 2002 (enacted by HB 124 in the 2001 session) accounts for most of the large increase shown in FY 2002. The

increase in FY 2001 is largely due to payment of wildfire costs incurred during the summer of 2000.

Figure 19



\*Includes \$1.6 M spent by MUS for optional retirement (HB 95) without a statutory appropriation

Figure 20 shows each individual general fund statutory appropriation that has been included in the general fund balance sheet for FY 2009-2011. The largest single statutory appropriation of general fund occurs under 15-1-121, MCA. Under this statute, \$195.6 million is expected to be spent for entitlement payments to local governments and tax increment financing districts in the 2011 biennium. Since statute allows annual increases based on averages of Montana's gross state product and personal income, the amount has grown at an average annual rate of 2.8 percent since 2003. Other large statutory appropriations of general fund in the 2011 biennium include:

- \$95.8 million of transfers to retirement funds (Title 19, MCA)
- \$31.9 million to service the debt on bonding issues approved by past legislatures (17-7-502, MCA)
- \$16.5 million for emergencies or disasters declared by the governor or the president of the United States
- \$6.1 million of coal trust interest (that is deposited to the general fund) to fund economic development programs (15-35-108, MCA). The statutory appropriations sunset after FY 2010.

Figure 20

General Fund Statutory Appropriation Estimates Fiscal Years 2009-2011 (Millions)						
MCA Cite	Bill/Purpose	Legislative Session	Fiscal 2009	2011 Biennium		
				Fiscal 2010	Fiscal 2011	Total
<u>Retirement</u>						
19-3-319	Local Government PERD 19-3-319	1985	\$0.732	\$0.820	\$0.919	\$1.739
19-6-404(2)	HB 102-MVD retirement transfer	2005	0.294	0.300	0.305	0.604
19-6-410	HB 102-MHP retirement transfer	2005	1.219	1.344	1.481	2.825
19-9-702	Ins Prem Tax-Fire/Polc Ret 19-9-702-SA	1997	10.096	10.785	11.419	22.204
19-13-604	Prem Tax-Fire/Pol 19-13-604-SA	1997	10.518	11.561	12.377	23.939
19-17-301	Prem Tax-Fire/Pol 19-17-301-SA	1985	1.660	1.764	1.874	3.637
19-18-512(1)	Prem Tax-Fire/Pol 19-18-512-SA	1985	0.360	0.376	0.393	0.769
19-19-305(1)	Prem Tax-Fire/Pol 19-19-305-SA	1985	0.291	0.304	0.317	0.621
19-19-506(4)	Prem Tax-Fire/Pol 19-19-506-SA	1985	0.024	0.025	0.026	0.050
19-20-604	Teachers GABA 19-20-604	1985	0.798	0.838	0.880	1.718
19-20-607	HB 63 - Teachers' retirement system	2007	13.370	16.625	17.460	34.085
19-21-203	HB 95 - Increase MUS employers' retirement contributions	2007	<u>1.684</u>	<u>1.751</u>	<u>1.822</u>	<u>3.573</u>
Sub-total			\$41.046	\$46.492	\$49.273	\$95.764
<u>Economic Development*</u>						
15-35-108(7)(b)(i)	Coop Developmental Center NMC	2000 SS	\$0.065	\$0.065	\$0.000	\$0.065
15-35-108(7)(b)(ii)	Add Vision 2005-SA	2000 SS	1.250	1.250	0.000	1.250
15-35-108(7)(b)(iii)	Research & Commercialization	2000 SS	3.650	3.650	0.000	3.650
15-35-108(7)(b)(iv)	Economic Development	2000 SS	<u>1.100</u>	<u>1.100</u>	<u>0.000</u>	<u>1.100</u>
Sub-total			\$6.065	\$6.065	\$0.000	\$6.065
<u>Other</u>						
7-4-2502	HB 12 - Pay county attorney salaries	2007	\$2.409	\$2.565	\$2.573	\$5.138
10-1-1202	HB 136 - Death benefit to national guard beneficiaries	2007	0.000	0.000	0.000	0.000
10-3-312(1)	Emergency Appropriations	1985	4.811	8.250	8.250	16.500
15-1-121(3)	HB 124 - Combined Local Entitlement Distribution	2001	90.607	94.777	99.209	193.986
15-1-121(6)	HB 124 - Local TIF Entitlement Distribution	2001	1.288	0.819	0.785	1.604
15-1-218	HB 680 - DOR to collect out-of-state debt	2007	0.100	0.200	0.400	0.600
15-70-601(1)(b)	HB 756 - Biodiesel tax incentives	2005	0.000	0.000	0.000	0.000
15-70-369(4)	HB 776 - Biodiesel tax refunds	2005	0.000	0.000	0.000	0.000
16-11-509	HB 169 - Fines & cost recovery tobacco settlement	2005	0.027	0.027	0.027	0.054
17-3-106(2)	DofA Cash Management Interest	1993	0.174	0.174	0.174	0.348
17-6-101(6)	BOI Banking Charges	1993	1.500	1.500	1.500	3.000
17-7-502(4)	TRANS Debt Service and Issuance Costs	1985	0.000	0.000	0.000	0.000
17-7-502(4)	Transfer to Debt Service A/B Bond	1985	17.239	17.096	14.757	31.853
Sub-total			\$118.156	\$125.408	\$127.675	\$253.083
Total			\$165.266	\$177.965	\$176.948	\$354.912
* The statutory appropriations sunset after FY2010						



**LFD  
COMMENT****Executive Budget – LC 457 and HB 14**

The executive proposes two new proposals funded with general fund statutory appropriations.

Economic Development (LC 457) – Under current law, the general fund statutory appropriations in 15-35-108(9), MCA, terminate at the end of FY 2010. The executive proposes legislation to extend the termination date an extra nine years, to the end of FY 2019, and reduce the amounts for growth through agricultural programs and research and commercialization. If approved, an additional \$3.1 million of general fund would be appropriated each year for: 1) \$1.3 million – transfer to the research and commercialization (which is statutorily appropriated); 2) \$625,000 – growth through agricultural program; 3) \$425,000 – certified regional development corporations; 4) \$300,000 – export trade enhancement; 5) \$200,000 – Montana manufacturing extension center at MSU-Bozeman; 6) \$125,000 – small business development center; 7) \$65,000 – cooperative development center; and 8) \$50,000 – small business innovative research program.

Originally enacted in the May 2000 special session (to fund the programs that were not funded because of the invalidity of the coal producer's license tax), HB 1 appropriated \$3.4 million general fund in the 2001 biennium for various economic development programs. It also appropriated \$3.4 million general fund in each of the 2003 and 2005 biennia for the same programs and required the transfer of \$19.4 million general fund to the commercialization expendable trust fund over the 2003 and 2005 biennia. Numerous changes to the appropriations, transfers, and programs to be funded have been made since HB 1, including extensions of the termination dates.

Additional Debt Service (HB 14) - The executive proposes to issue \$21.0 million in general obligation bonds to purchase and manage real property and appurtenances for forest, recreation, and income-producing activities. It is estimated that the debt service, paid with a statutory appropriation from the general fund, will be \$0.4 million in FY 2010 and \$0.9 million in FY 2011. Total debt service through FY 2031 will be \$33.4 million general fund. An issue raised by this proposal is highlighted below.

**LFD  
ISSUE****HB 14 – Bonding for School Trust Land**

Although the intent of the legislation appears to be the purchase of common school trust lands, this intent is not clear. The legislation should clearly state that any land purchased with the \$21 million will be common school trust lands and subject to the same constitutional protections as other common school trust lands.

The \$21 million in bond proceeds can be used to purchase land and to pay DNRC administrative costs for managing the land. No provision is provided for paying administration costs when all the proceeds have been expended.

The requirement in Section 1 that net interest and income (after deductions for DNRC administration expenses) from the purchased land be earmarked to the school facility improvement account also applies to “appurtenances purchased”. A common definition of “appurtenances” is the rights attached to a piece of land. Examples of such rights are mineral rights and easements. Currently, revenue from the sale of common school trust easements and royalties from the sale of minerals (once SB 495 [2001 session] ends) is considered permanent revenue (part of the trust corpus) and is returned to the trust. Under this legislation, it appears that this permanent revenue might be distributed, possibly in violation of Article X, Section 3 of the Montana Constitution which states: “Public school fund inviolate. The public school fund shall forever remain inviolate, guaranteed by the state against loss or diversion.”

The requirement in Section 1 that net interest and income (after deductions for DNRC administration expenses) from the purchased land be earmarked to the school facility improvement account complicates the revenue estimation process from this revenue source. Currently, revenues are estimated by individual source (such as timber, mineral royalties, streambed leases, grazing, trust funds bond pool earnings, etc.) from all school trust lands. To obtain accurate estimates under this legislation, interest and income revenue from the specific tracts of school trust lands purchased with the \$21 million would have to be estimated separately.

**LFD  
COMMENT****Executive Budget - HB 152**

The proposed legislation would create a grant program for school facilities administered by the Department of Commerce. Money from certain timber, certain mineral royalties, and power site leases from common school trust land would be diverted to a new state special revenue account called the school facility and technology account from which the grants would be appropriated.

The legislation removes the state special revenue statutory appropriation for the revenue from timber sales over the value of 18 million board feet (estimated to be \$2.0 million in FY 2009, \$2.7 million in FY 2010, and \$0.8 million in FY 2011). It creates a new \$1.0 million yearly state special revenue statutory appropriation from the school facility and technology account for school technology purposes. The applicable sections are effective on passage and approval.

**LFD  
COMMENT**

## Legislative Finance Committee Policy

During the interim, the Legislative Finance Committee reviewed statutory appropriations and ultimately introduced legislation to eliminate, change, and consolidate selected statutory appropriations (LC0066). The committee also approved the following: “It is the policy of the Legislative Finance Committee that the legislature does not enact legislation establishing a statutory appropriation unless a termination date is included”.

**LFD  
ISSUE**

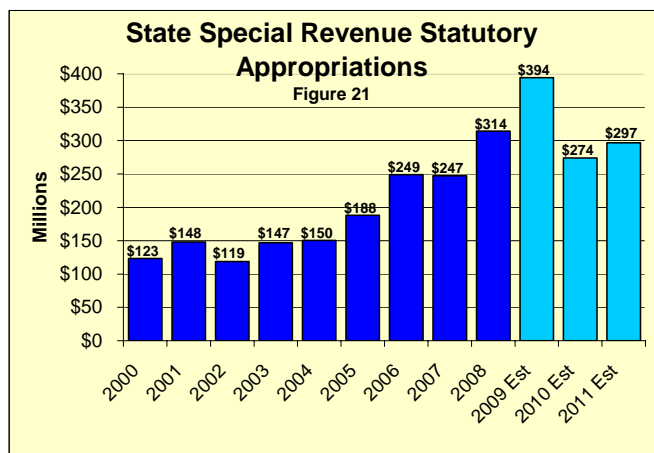
## Local Government Entitlement Payments

As stated above, \$195.6 million of general fund is projected to be spent in the 2011 biennium through a statutory appropriation for entitlement payments to local governments and tax increment financing districts. By statute, subsequent yearly amounts are automatically increased by a calculated growth factor. Since FY 2008, the yearly growth in expenditures has increased each year at an average rate of 4.4 percent. Because the money is appropriated in statute, it is not reviewed by the legislature as part of the biennial budgeting process. In essence, it and all other general fund statutory appropriations have priority funding over all general fund programs appropriated in the general appropriations act (HB 2). When the legislature is prioritizing general fund programs to balance the budget, programs funded with general fund statutory appropriations should be considered by the legislature along with all other general fund programs.

As an alternative to funding local governments and tax increment financing districts entitlement payments through a statutory appropriation, the legislature could eliminate the general fund statutory appropriation and provide general fund appropriations for the programs in HB 2 at the same level. Not only would this ensure that the programs would receive the same amount of funding, but the appropriations would be reviewed and prioritized along with the other general fund programs in HB 2 each biennium and the level of funding would reflect the current legislature’s funding priorities.

### State Special

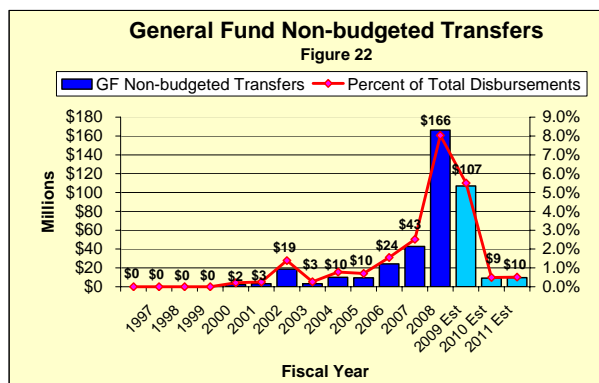
It is estimated by the executive that \$570.4 million of state special revenue will be spent through statutory appropriations in the 2011 biennium. Figure 21 shows the amounts spent from FY 2000 through FY 2008 and the amounts estimated by the executive to be spent from FY 2009 through FY 2011. In FY 2008, the agency with the largest expenditures of



state special revenue (\$172.4 million) with statutory appropriations was the Department of Revenue. This department distributes revenue from oil, natural gas, metalliferous mines, beer, wine, and liquor taxes to local and tribal governments. The agency with the second largest expenditures (\$54.7 million) is the Office of Public Instruction which distributes net interest and income from the common school trust to fund public schools. The five agencies with the largest expenditures spent \$291.8 million or 92.9 percent of the \$314.1.2 million total. By far, the largest single purpose for which the money was spent (\$282.4 million or 89.9 percent) was to transfer money to local governments. The large increase in FY 2009 is due primarily to larger anticipated Department of Revenue distributions (\$212.4 million) to local governments and anticipated expenditures (\$40.0 million) from the fire suppression account authorized by the 2007 Legislature in the September 2007 special session.

### GENERAL FUND NON-BUDGETED TRANSFERS

The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous accounts and, with proper legislative authorization, money may be transferred from one account to another without an appropriation. This results in less money in one account for the programs it funds and more in another. Like statutory appropriations, these transfers and their authorizations are in statute (or sometimes contained in uncodified legislation) and are not part of the biennial budgeting process, yet they affect the amount of money available for the legislature to appropriate for specific programs. Because they are in statute, they remain in place until removed or changed by legislation.



Since FY 2000, increased amounts of money have been transferred out of the general fund to other accounts that fund non-general fund programs. As illustrated in Figure 22, this amount has grown from \$0 in FY 1999 to a high of \$166.4 million in FY 2008. Of the \$166.4 million, \$158.0 million was uncoded one-time transfers for capital projects (\$82.6 million), water adjudication (\$25 million), noxious weed trust fund

(\$5.0 million), cultural trust fund (\$1.5 million), national guard life insurance (\$1.0 million), and children trust fund (\$1.0 million) among others. An estimated \$107.0 million is to be transferred in FY 2009 (5.5 percent of total general fund expenditures) including one-time transfers to other funds of \$98.2 million for capital projects, community health center support, free hunting licenses, and national guard life insurance. Transfers are estimated to be \$18.6 million in the 2011 biennium. Included for the first time is an anticipated transfer of \$0.8 million to the workers compensation old fund in FY 2011 (39-71-235(6), MCA). Beginning FY 2012 at \$8.0 million, the Montana State Fund estimates yearly general fund transfers, in decreasing amounts, will be needed until FY 2047. Total general fund transfers to the old fund are estimated to be \$52.2 million.

These transfers reduce the amount of money in the general fund that is available for general fund programs and increase the amount available for other non-general fund programs. Figure 23 shows each non-budgeted general fund transfer that has been included in the general fund balance sheet.

Figure 23

General Fund Non-budgeted Transfer Estimates Fiscal Years 2009-2011 (Millions)						
Authorization	Name	Legislative Session	Fiscal 2009	2011 Biennium		Total
				Fiscal 2010	Fiscal 2011	
<u>Vehicle/Other Fee Transfers</u>						
15-1-122(1)	DPHHS-Adoption services	2001	\$0.054	\$0.059	\$0.065	\$0.124
15-1-122(2)(c,d)	DOT-Nonrestricted account	2001	3.096	3.142	3.190	6.332
15-1-122(3)(a)	DEQ-Junk vehicles	2001	1.701	1.693	1.657	3.350
15-1-122(3)(b)	Agriculture-Noxious weeds	2001	1.724	1.716	1.680	3.395
15-1-122(3)(c)(i)	FWP-Boat facilities & enforcement, OHV, Parks	2001	0.529	0.526	0.515	1.041
15-1-122(3)(c)(ii)	FWP-Enforcement, snowmobiles	2001	0.115	0.114	0.112	0.226
15-1-122(3)(c)(iii)	FWP-Motorboats	2001	0.184	0.183	0.179	0.362
15-1-122(3)(d)	MA-Veterans' services	2001	0.735	0.732	0.717	1.449
15-1-122(3)(e)	DOT-Disabled seniors transportation	2001	0.345	0.343	0.336	0.679
15-1-122(3)(f)	MA-Search and rescue	2001	0.046	0.046	0.045	0.091
Sub-total			\$8.527	\$8.554	\$8.495	\$17.049
<u>Other Transfers</u>						
Unknown	DPHHS Nonbudgeted		\$0.248	\$0.248	\$0.248	\$0.496
17-1-511(2)	SB 553 - Incentives for rural physicians	2007	0.057	0.114	0.170	0.284
39-71-2352(6)	Old state fund shortfall	2002 SS	0.000	0.000	0.760	0.760
53-20-171(2)	Developmental disability tax credit excess	2003	Unknown	Unknown	Unknown	Unknown
77-1-108(4a)	HB 19 - To trust land administration account	2007	0.000	0.080	0.000	0.080
87-2-801(6)	SB 166 - To general license acct. purple heart free license	2007	0.001	0.001	0.001	0.001
87-2-803(12c)	SB 243 - To general license acct. national guard free license	2007	0.027	0.027	0.027	0.054
87-2-805(5)	SB 166 - To general license acct. senior & youth free license	2007	0.116	0.000	0.000	0.000
Un-codified	HB 4 - Transfers to capital project funds	2007 SS	97.323	0.000	0.000	0.000
Un-codified	HB 155 - National guard life insurance	2007	0.100	0.000	0.000	0.000
Un-codified	HB 406 - Community health center support	2007	0.650	0.000	0.000	0.000
Sub-total			\$98.521	\$0.469	\$1.206	\$1.676
Total			\$107.049	\$9.023	\$9.701	\$18.725

**LFD  
COMMENT****Executive Budget General Fund Transfers – HB 10, HB 5, HB 135, (HB 161 (LC 276))**

In HB 10, the executive proposes to transfer \$6.9 million general fund to the information technology capital projects fund during the 2011 biennium. The transfers are contingent on the FY 2011 general fund balance exceeding \$300 million, as projected by the Governor's Office. Since the projected balance is \$295.5 million, the transfer is not included in the budget. The money would be appropriated from the account for: 1) efficiency through imaging; and 2) a new medical management information system for DPHHS. More information on these proposals can be found in Volume 7, Section F.

**LFD  
COMMENT (CONT.)**

HB 5 would transfer \$22.1 million general fund to capital project and state special revenue accounts for: 1) long-range building projects - \$5.1 million; 2) energy conservation projects - \$13.4 million; 3) energy conservation - \$1.5 million; and 4) FWP land acquisition – \$2.0 million. The legislature also adds new sections to MCA Title 90, Chapter 4, Part 6. Section 15 of the bill would require the legislature in HB 2 to approve or disapprove the transfer of general fund or capital project funds in an amount equal to estimated energy cost savings to the energy conservation repayment account. It also states, “the current level utility appropriations ... must be reduced by the sum of the amounts approved to be transferred...”. This section is effective on passage and approval.

HB 135 would transfer \$1.0 million general fund in the 2011 biennium to the Peoples Creek minimum flow account to upgrade irrigation systems and for a reservoir on the Fort Belknap reservation. Money in the account cannot be disbursed until the compact has been ratified by the Montana legislature, US Congress, and the Tribe.

HB 161 (LC 276) would transfer \$4.0 million general fund in the 2011 biennium to the Blackfeet Tribe water rights compact infrastructure account for infrastructure projects on the Blackfeet Indian reservation. Money in the account cannot be disbursed until the compact has been ratified by the Montana legislature, US Congress, and the Tribe.

**LFD  
COMMENT**

## Legislative Finance Committee Policy

During the interim, the Legislative Finance Committee reviewed general fund transfers and approved the following: “It is the policy of the Legislative Finance Committee that the legislature does not enact legislation that transfers general fund in an on-going manner to another account from which it can be appropriated. Such action obfuscates the true source of funding, reduces the general fund balance without any review by the appropriations subcommittees, and is inefficient. A better method is to directly appropriate the funding for the intended use. This policy also applies to non-general fund on-going transfers. Our Legislative Fiscal Division staff is instructed to inform legislators, legislative committees, and others as it deems necessary of this policy.”

**LFD  
ISSUE****MCA Title 15 General Fund Transfers**

The largest group of on-going transfers out of the general fund (\$17.0 million in the 2011 biennium) is the transfer of motor vehicle fee and other revenue that is initially deposited to the general fund (15-1-122, MCA). This money is earmarked and transferred out to multiple accounts to fund various state programs. The practice of transferring money out of the general fund escalated sharply with the enactment of HB 124 (entitlement payments to counties) in the 2001 session. The practice is not conducive to good budgeting and unnecessarily complicates the revenue and disbursement processes.

The legislature could eliminate this complicated and unnecessary practice and achieve the same results by implementing one of the following changes:

1. Earmark the applicable fees and provide for their direct deposit to the various program accounts. This bypasses the unnecessary step of first depositing the money in the general fund and then transferring the general fund to the various program accounts. Since the money is already being appropriated from these program accounts, current appropriations would not change.
2. Continue to deposit the applicable fees to the general fund, but eliminate the transfers to the various program accounts. Since there would be no transfer revenue to appropriate from the various program accounts, appropriations from these accounts could be eliminated and replaced by general fund appropriations in the same amounts.

In both cases, the various state programs would receive the same level of appropriation, the general fund transfers are eliminated, and there is no impact on the general fund balance.



## MISCELLANEOUS APPROPRIATIONS AND TRANSFERS

Besides the general appropriations act (HB 2), there are typically a number of other bills that make up the total executive budget. Figure 24 lists such bills that either appropriate funds or transfer funds. The amounts listed below for a few key bills differ from the amounts in those bills because the amounts used in the figure by necessity are made consistent with the executive budget general fund balance statement submitted December 15.

Figure 24

Appropriation and Transfer Bills Executive Budget 2011 Biennium						
Bill	FY 2010			FY 2011		
	GF	Other Funds	Total	GF	Other Funds	Total
<b>Appropriations</b>						
HB 1	\$1,215,000	\$0	\$1,215,000	\$7,515,000	\$0	\$7,515,000
HB 5	0	98,022,000	98,022,000	0	0	0
HB 6	0	8,535,798	8,535,798	0	0	0
HB 7	0	5,812,865	5,812,865	0	0	0
HB 8	0	9,635,920	9,635,920	0	0	0
HB 9	0	839,400	839,400	0	0	0
HB 10 <sup>a</sup>	5,500,000	94,251,745	99,751,745	0	0	0
HB 11	0	25,083,889	25,083,889	0	0	0
HB 13 <sup>a</sup>	8,780,316	6,875,799	15,656,115	9,819,907	7,199,664	17,019,571
HB 14	0	21,000,000	21,000,000	0	0	0
HB 152	0	13,000,000	13,000,000	0	1,000,000	1,000,000
HB 135	0	1,000,000	1,000,000	0	0	0
HB 161	0	4,000,000	4,000,000	0	0	0
HB 154	0	30,000,000	30,000,000	0	0	0
Total	<u>\$15,495,316</u>	<u>\$318,057,416</u>	<u>\$333,552,732</u>	<u>\$17,334,907</u>	<u>\$8,199,664</u>	<u>\$25,534,571</u>
<b>Transfers</b>						
HB 5 <sup>b</sup>	\$14,700,000	\$0	\$14,700,000	\$7,260,000	\$0	\$7,260,000
HB 10 <sup>c</sup>	0	0	0	0	0	0
HB 135 <sup>d</sup>	1,000,000	0	0	0	0	0
HB 161 <sup>e</sup>	4,000,000	0	0	0	0	0
SB71 <sup>f</sup>	0	9,000,000	9,000,000	0	0	0
Total	<u>\$19,700,000</u>	<u>\$9,000,000</u>	<u>\$23,700,000</u>	<u>\$7,260,000</u>	<u>\$0</u>	<u>\$7,260,000</u>

<sup>a</sup> HB 10 and 13 amounts on this spreadsheet differ from the bill

<sup>b</sup> Appropriated in HB 5 contingent on projected ending fund balance of \$125 million...amounts differ from bill

<sup>c</sup> Transfer of \$3.4 million GF each year in HB 10 contingent on projected ending fund balance of \$300 million (unmet)

<sup>d</sup> Appropriated in HB 135 (LC275)

<sup>e</sup> Appropriated in HB 161 (LC276)

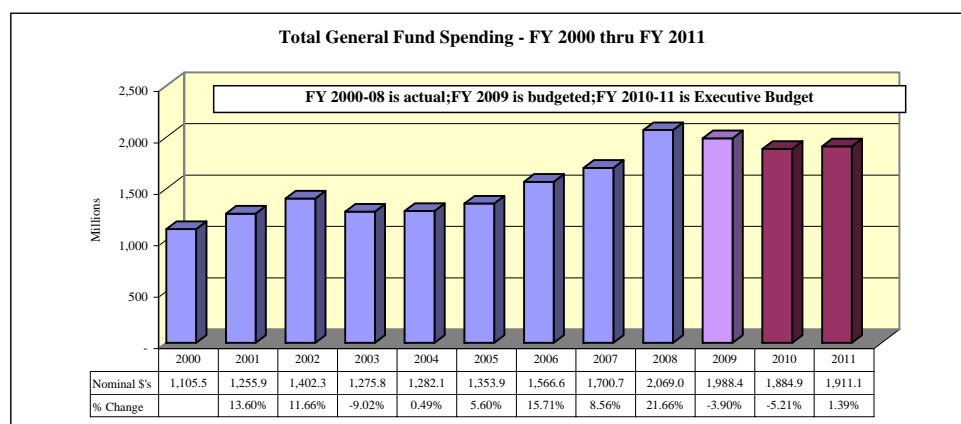
<sup>f</sup> Appropriated in HB 2

## A HISTORICAL PERSPECTIVE ON GENERAL FUND SPENDING

### TOTAL GENERAL FUND SPENDING – A 12-YEAR HISTORY

Figure 25 shows total general fund spending over the twelve year period FY 2000 through 2011. The amounts shown for the period FY 2000 through 2008 are actual disbursements, FY 2009 is as budgeted by the 60<sup>th</sup> Legislature, and FY 2010 and 2011 are as proposed in the revised executive budget submitted on December 15, 2008.<sup>2</sup>

Figure 25



Total general fund spending grows from \$1.106 billion to \$1.911 billion over the period FY 2000 through 2011. This is a 72.9 percent total growth or an annual average growth rate of approximately 5.1 percent per year. As shown in Figure 25, general fund spending was on the increase from FY 2000 to 2002 reflecting the positive effects of the “dot com” rage and the resulting run-up in the securities market. Higher equity prices produced record capital gains income, high corporate profits, and accelerated state tax revenues. During FY 2003 and 2004, Montana’s economy as well as the US economy fell into a recession precipitated by the tragic event of “9/11”. Starting in FY 2005, state disbursements began an upward growth pattern fueled by unusually high revenue growth until FY 2008. Individual, corporation, and oil and gas taxes all contributed to this phenomenal growth spurt during this period. As shown in Figure 25 the executive budget proposes to adjust general fund spending well below the FY 2008 to 2009 amounts.

It should be noted that historical spending trends can be misleading if there are statutory changes that have occurred over the comparison period. For instance, the

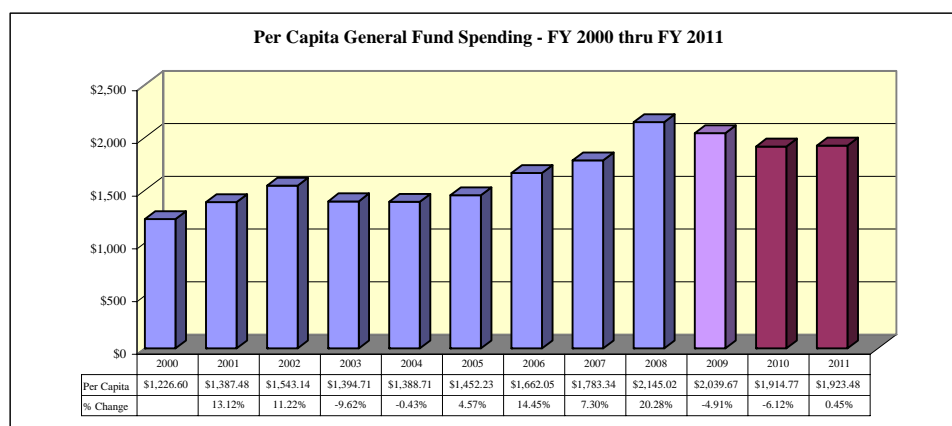
<sup>2</sup>The disbursement data for this historical perspective was obtained from the Statewide Budgeting and Human Resources System (SABHRS) and the Montana Budgeting and Accounting System (MBARS). The economic information was obtained from IHS Global Insight, the regional and national economic forecasting service on contract with Montana state government.

2001 Legislature passed HB 124 (“The Big Bill”) that re-directed the flow of local government vehicle fees and taxes, video gambling revenues, and other taxes to the state general fund. This legislation had no impact on individual taxpayers but state disbursements went up by the corresponding increase in state revenue flow. Without knowledge of this change, the reader could conclude that state disbursements increased significantly when in reality some of this growth is due to “accounting” changes. The data presented in this historical perspective has not been adjusted for any legislative or accounting changes.

## PER CAPITA GENERAL FUND SPENDING

Part of the increase in general fund spending can be attributable to a growing population and the services required for a greater population base. For instance, as population grows or the demographics of the populace change, the services provided by government may increase in one area and decrease in another. If the number of school age children decline, for example, while the population as a whole ages, reduced costs may be incurred for education but human services costs for the aged may increase. Population growth and the underlying demographics play a critical role in state general fund spending. Figure 26 shows per capita general fund spending over the twelve year period, FY 2000 through 2011. Per capita general fund spending has increased by 56.8 percent or an average annual rate of 4.2 percent per year.

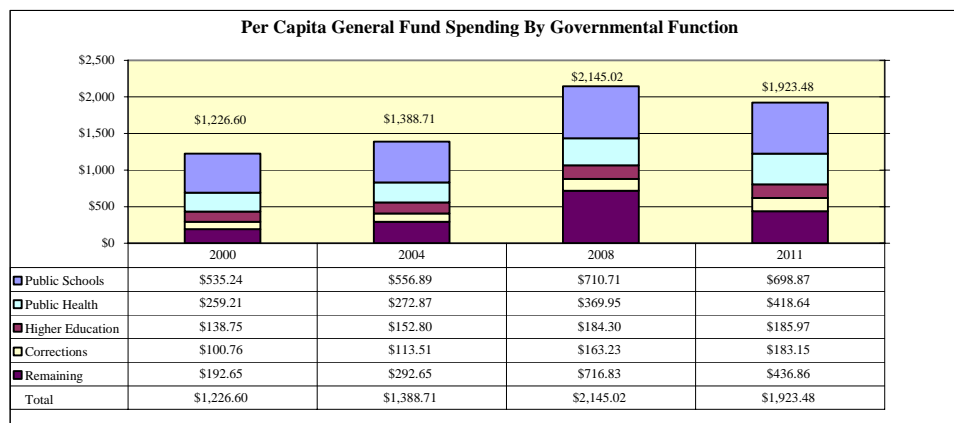
Figure 26



As shown in Figure 26, per capita spending has followed a similar pattern as discussed previously. Per capita spending peaked in FY 2008 and 2009 when the legislature authorized an unprecedented amount of “one-time-only” spending for state infrastructure, information technology, retirement system cash infusions, and tax rebates. The executive budget proposes to reduce per capita spending but higher than the level observed prior to FY 2008 and 2009. Figure 26 shows the same per capita spending data except that the information is summarized by major functional service areas of state government. As shown in Figure 27, the increase in per capita general fund spending from FY 2004 to 2008 is well over 54 percent. This increase partially a reflection of the legislature’s desire to address significant fiscal policy issues during the

2007 legislative session. Figure 27 also provides an indication of the spending priorities of the proposed executive budget. For FY 2011, the executive budget proposes to reduce per capita spending for public schools and essentially maintain per capita spending for higher education. The Governor's spending priorities, as shown in the figure, are for public health and correctional services. Even with a proposed reduction in total per capita spending to \$1,923 in FY 2011, this represents a \$535 increase from per capita spending of \$1,389 in FY 2004.

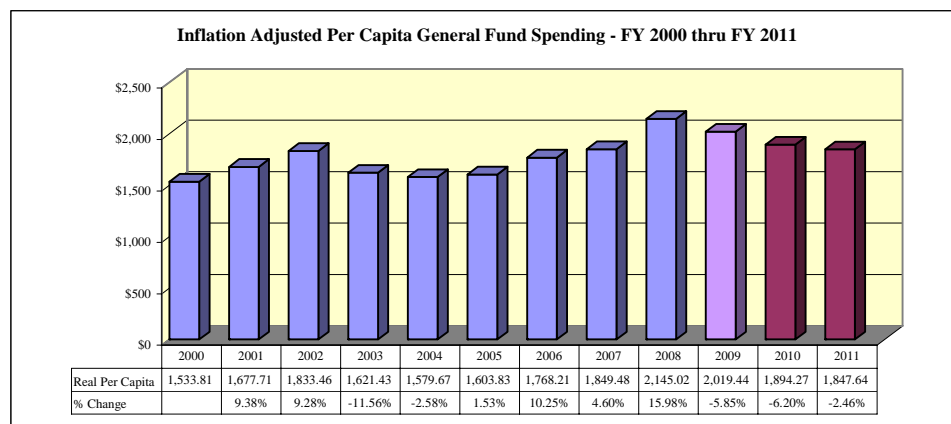
Figure 27



## INFLATION-ADJUSTED PER CAPITA GENERAL FUND SPENDING

Part of the general fund spending growth discussed above is related to the effects of rising prices (inflation) and a growing population over time. Figure 28 shows total general fund spending after adjusting for both of these factors. The data shown in the figure is per capita general fund spending adjusted for the effects of inflation. To put the data in perspective, real spending (inflation adjusted), before a population adjustment has grown by 32.8 percent from FY 2000–2011 or at an average annual rate of 2.6 percent. Total state general fund spending (unadjusted for inflation) as discussed before, grew by an annual average of 5.1 percent. Obviously, inflationary pressures contribute to the growth in general fund spending.

Figure 28



Real per capita general fund spending is way of determining the “true” growth in general fund spending. This method removes the effects of both inflation and population growth. As shown in Figure 28, per capita spending has increased from \$1,534 in FY 2000 to \$1,848 in FY 2011. This represents a \$314 real per capita increase or 20.5 percent increase over this twelve year period. On an average annual rate, this is a 1.7 percent rate of growth for each year. In other words, when the effects of inflation and population changes are removed from the general spending amounts, actual growth in general fund spending has averaged 1.7 percent per year. This means that general fund spending is increasing because of other factors other than population changes and inflationary pressures. Examples of these “other” factors would be new initiatives such as additional public health services, full day kindergarten, correctional treatment programs, and appellate defender services.

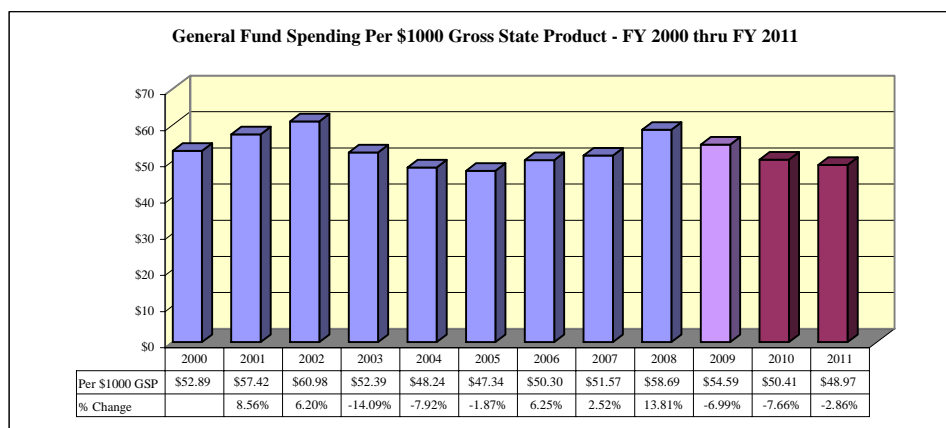
### STATE GENERAL FUND SPENDING RELATIVE TO THE STATE’S ECONOMY

The above discussion explains the reasons for the growth in state general fund spending. This section discusses general fund spending relative to the state’s ability to support that level of state spending. Figure 29 shows how general fund spending has varied over the twelve year period based on a percentage of Montana’s gross state product (GSP). Gross state product is a broad measure of the size of Montana’s economy. The data in Figure 29 shows the ratio in dollar terms of general fund spending to \$1000 of Montana’s GSP.

This figure portrays some interesting trends that were not apparent in the previous figures. For example, FY 2002 general fund spending in relation to GSP was the highest year during the twelve year period FY 2000 through 2011. During the early years of this decade, general fund spending was increased faster than Montana’s GSP. Beginning in FY 2003, this trend was reversed when the legislature made numerous adjustments to the state general fund budget to maintain fiscal solvency. This trend remained stable until FY 2008, when the legislature approved numerous “one-time-only” spending requests as discussed previously. As shown in Figure 29, the executive

budget proposal would bring general fund spending in line with the historical pattern observed during FY 2003 through 2007. If this historical period represents the carrying capacity of Montana's economy to support a level of state government services, then the executive budget as proposed is not adding additional burden on the taxpayers of Montana. However, if an argument is made that spending during this historical period was too high, then governmental services would need to be reduced in the 2011 biennium budget to reach the desired fiscal policy goals. Since the executive budget includes a limited number of new proposals (compared to previous biennia), reductions to the 2011 biennium budget would likely require a reduction in present law services.

Figure 29



## SUMMARY

In summary, total general fund spending over the ten year period (FY 2000-09) has increased on average by 6.7 percent per year. If the executive budget proposal for FY 2010 and 2011 is included, the average annual growth rate declines to 5.1 percent. This decline occurs because the executive budget proposes to reduce spending below the FY 2008 and 2009 periods. This rate compares to the growth in Montana's gross state product of 5.4 percent per year over the twelve year period.

Inflation adjusted per capita general fund spending increased 3.1 percent per year from FY 2000 to 2009, but declines to 1.7 percent per year when the executive budget proposal is included for FY 2010 and 2011. As mentioned previously, this means that general fund spending is increasing because of other factors other than population changes and inflationary pressures.